

TOWN OF MONTEAGLE, TENNESSEE

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2011

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INTRODUCTORY SECTION

TOWN OF MONTEAGLE, TENNESSEE

Board of Aldermen and Town Officials

June 30, 2011

Mayor	Marilyn Nixon
Vice Mayor	Alexander Orr
Alderman	Russell Leonard
Alderman	Harry Parmley
Alderman	Alvin Powell
Town Judge	Mark Rains
Town Recorder (appointed July 27, 2010)	Debbie Taylor

FINANCIAL SECTION



JOBE, HASTINGS & ASSOCIATES

Certified Public Accountants

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Donna K. Hastings, CPA, CSEP

James R. Jobe, CPA

Joel H. Jobe (1944 – 2006)

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
Town of Monteagle, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Monteagle, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Monteagle, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Monteagle, Tennessee, as of June 30, 2011, and the respective changes in financial position, budgetary comparison for the General Fund, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011 on our consideration of the Town of Monteagle, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Monteagle, Tennessee's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and the financial schedules listed in the supplementary section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and the financial schedules as listed in the supplemental section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
December 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Monteagle, Tennessee, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Monteagle, Tennessee for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

Management believes the Town's financial condition is strong. Performances in most areas exceed expectations. The following are key financial highlights:

- Total assets at year-end were \$17,100,242 and exceeded liabilities in the amount of \$11,738,588 (i.e. net assets). Of the total net assets, \$3,919,639 was unrestricted and was available to support short term operations. Total net assets increased from fiscal year end 2010 in the amount of \$2,936,502.
- The Town's governmental activities operated at a surplus of \$170,891. The Town's business-type activities operated at a surplus of \$2,765,611.
- As of the close of the current fiscal year, the Town of Monteagle, Tennessee's governmental funds reported combined ending fund balances of \$1,265,322.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,161,624, or 80.09%, of General Fund expenditures and the Water and Sewer Fund Unrestricted Net Assets were \$2,768,510 or 211.38% of operating expenses.
- As of June 30, 2011 the working capital (current assets less current liabilities) for the Water and Sewer Fund was \$2,679,631.
- During the 2009-2010 fiscal year the Town of Monteagle entered into construction contracts totaling \$8,532,000 for the construction of a new wastewater treatment plant. In October 2011 the new wastewater treatment plant was declared "substantially complete" by the Town's engineer and placed on line.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The Town of Monteagle, Tennessee's basic financial statements comprises three components: (1) government-wide financial statements, (2) fund financial statements, and (3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the Town of Monteagle, Tennessee's finances, in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the Town of Monteagle, Tennessee's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Monteagle, Tennessee is improving or deteriorating.

Both of the government-wide financial statements, distinguish functions of the Town of Monteagle, Tennessee that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Monteagle, Tennessee include general government, public safety, public works, state street aid, and public welfare and recreation. The business-type activity of the Town of Monteagle, Tennessee includes the Water and Sewer Fund.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Monteagle, Tennessee, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Monteagle, Tennessee can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Governmental Funds (Cont.)

governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The Town of Monteagle, Tennessee maintains three individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, which is considered to be a major fund. Data from the other two governmental funds are combined into a single aggregate presentation. Individual fund data for each of the two non-major governmental funds is provided in the form of combining statements later in this report beginning on page 43.

The Town of Monteagle, Tennessee adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental fund, which is the General Fund, to demonstrate compliance with this budget, as well as for non-major funds.

The basic governmental fund financial statements can be found on pages 19 through 26 of this report.

Proprietary Funds

The Town of Monteagle, Tennessee maintains one type of proprietary fund: enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Monteagle, Tennessee uses an enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Proprietary Funds (Cont.)

provide information for the Water and Sewer Fund which is considered to be a major fund of the Town of Monteagle, Tennessee.

The basic proprietary fund financial statements can be found on pages 27 through 29 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 30 through 42 of this report.

Other Information

The statements referred to earlier in connection with non-major governmental funds, is presented immediately following the Notes to the Financial Statements. Individual fund statements and schedules can be found on pages 45 and 46 of this report.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Monteagle, Tennessee, assets exceeded liabilities by \$11,738,588 at the close of this fiscal year.

The largest portion of the Town of Monteagle, Tennessee's net assets (66.13 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town of Monteagle, Tennessee uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town of Monteagle, Tennessee's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 0.48%, or \$56,474, of the Town of Monteagle, Tennessee's net assets represents resources that are subject to external restrictions on how they may be

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Net Assets (Cont.)

used. 33.39%, or \$3,919,639, in net assets may be used to meet the government's ongoing obligations to its citizens and creditors.

At June 30, 2011, the Town of Monteagle, Tennessee is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following table A-1 provides a summary of the Town's net assets broken down by governmental and business-type activities.

Table A-1
Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 1,867,682	\$ 1,891,547	\$ 3,838,956	\$ 3,579,864	\$ 5,706,638	\$ 5,471,411
Capital assets	\$ 1,241,830	1,085,985	10,151,774	5,466,148	11,393,604	6,552,133
Total assets	<u>\$ 3,109,512</u>	<u>\$ 2,977,532</u>	<u>\$13,990,730</u>	<u>\$ 9,046,012</u>	<u>\$17,100,242</u>	<u>\$12,023,544</u>
Current Liabilities	\$ 84,036	\$ 90,458	1,058,664	\$ 989,022	1,142,700	\$ 1,079,480
Non-current liabilities	\$ 812,309	844,798	3,406,645	1,297,180	4,218,954	2,141,978
Total liabilities	<u>\$ 896,345</u>	<u>\$ 935,256</u>	<u>4,465,309</u>	<u>\$ 2,286,202</u>	<u>5,361,654</u>	<u>\$ 3,221,458</u>
Net assets:						
Invested in capital assets						
net of related debt	\$ 1,005,564	\$ 838,301	6,756,911	\$ 4,177,767	7,762,475	\$ 5,016,068
Restricted	\$ 56,474	56,345	-	-	56,474	56,345
Unrestricted	\$ 1,151,129	1,147,630	2,768,510	2,582,043	3,919,639	3,729,673
Total net assets	<u>\$ 2,213,167</u>	<u>\$2,042,276</u>	<u>9,525,421</u>	<u>\$ 6,759,810</u>	<u>11,738,588</u>	<u>\$ 8,802,086</u>

Changes in Net Assets

Governmental activities increased the Town of Monteagle, Tennessee's net assets by \$170,891. Business-type activities increased the Town of Monteagle, Tennessee's net assets by \$2,765,611. The following table A-2 provides a summary of the Town's net assets broken down by governmental and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Changes in Net Assets (Cont.)

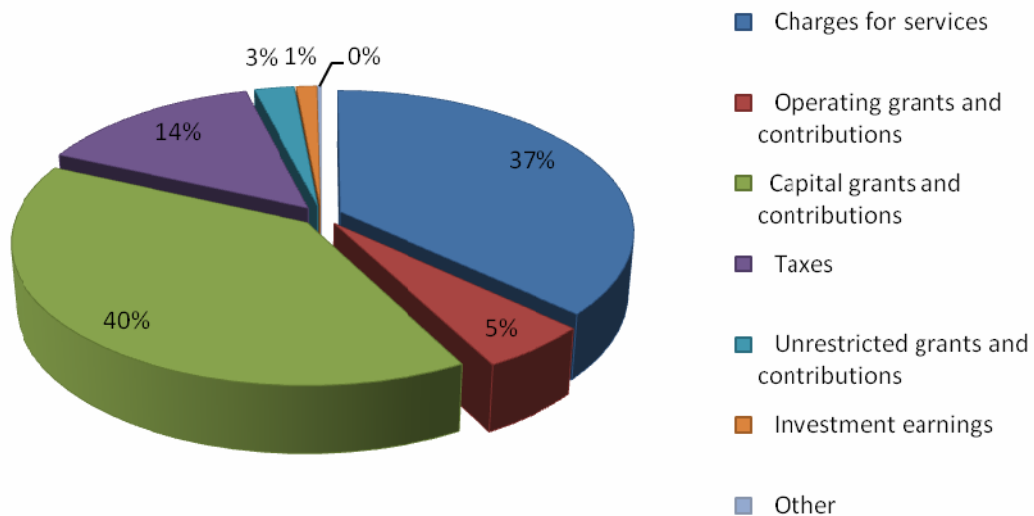
Table A-2
Condensed Statement of Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	2011	2010	2011	2010	2011	2010
<u>Revenues</u>						
Program revenues:						
Charges for Services	\$ 111,449	\$ 126,576	\$ 1,919,197	\$ 1,984,784	\$ 2,030,646	\$ 2,111,360
Operating grants and Contributions	296,498	235,179	-	-	296,498	235,179
Capital grants and Contributions	30,672	29,590	2,147,504	830,048	2,178,176	859,638
General revenues:						
Taxes	781,774	736,068	-	-	781,774	736,068
Unrestricted grants and Contributions	140,597	118,918	-	-	140,597	118,918
Investment earnings	44,727	50,578	25,864	23,440	70,591	74,018
Other	4,825	71,952	7,218	187,053	12,043	259,005
Total Revenue	<u>\$ 1,410,542</u>	<u>\$ 1,368,861</u>	<u>\$ 4,099,783</u>	<u>\$ 3,025,325</u>	<u>\$ 5,510,325</u>	<u>\$ 4,394,186</u>
<u>Expenses</u>						
General government	\$ 402,505	\$ 351,152	-	-	\$ 402,505	\$ 351,152
Public Safety	649,504	597,974	-	-	649,504	597,794
Public works	105,604	117,539	-	-	105,604	117,539
State street aid	35,174	37,037	-	-	35,174	37,037
Public welfare and Recreation	989	11,895	-	-	989	11,895
Interest on long-term debt	45,875	49,015	-	-	45,875	49,015
Water and sewer	-	-	\$ 1,334,172	\$ 1,287,319	1,334,172	1,287,319
Natural gas	-	-	-	-	-	-
Total Expenses	<u>\$ 1,239,651</u>	<u>\$ 1,164,432</u>	<u>\$ 1,334,172</u>	<u>\$ 1,287,319</u>	<u>\$ 2,573,823</u>	<u>\$ 2,451,751</u>
Change in net assets	\$ 170,891	\$ 204,429	\$ 2,765,611	\$ 1,738,006	\$ 2,936,502	\$ 1,942,435
Prior period adjustment	-	18,861	-	(110,619)	-	(91,455)
Net assets – beginning	<u>2,042,276</u>	<u>1,818,986</u>	<u>6,759,810</u>	<u>5,132,120</u>	<u>8,802,086</u>	<u>6,951,106</u>
Net assets – ending	<u>\$ 2,213,167</u>	<u>\$ 2,042,276</u>	<u>\$ 9,525,421</u>	<u>\$ 6,759,810</u>	<u>\$ 11,738,588</u>	<u>\$ 8,802,086</u>

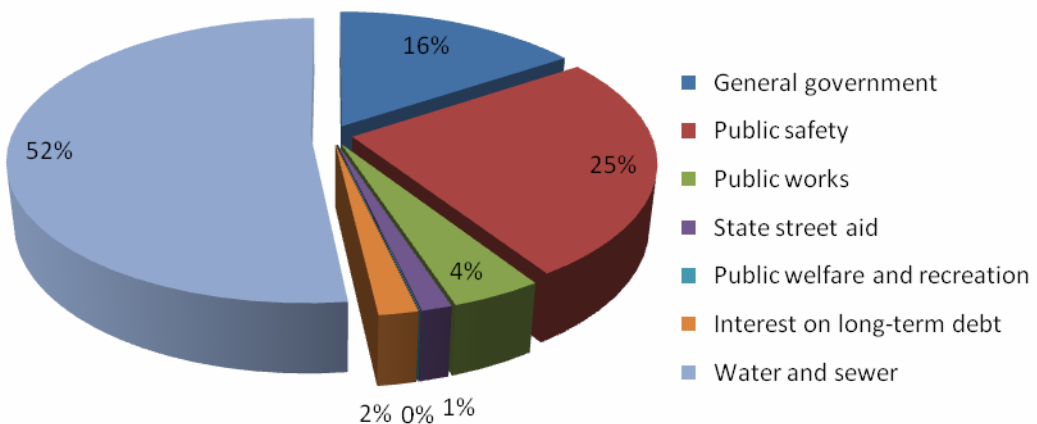
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

The following graphs summarize the \$5,510,325 of town-wide revenue by source and the associated \$2,573,823 of expense by program. The graphs combine data from both governmental and business-type activities.

Town-wide Sources of Revenue



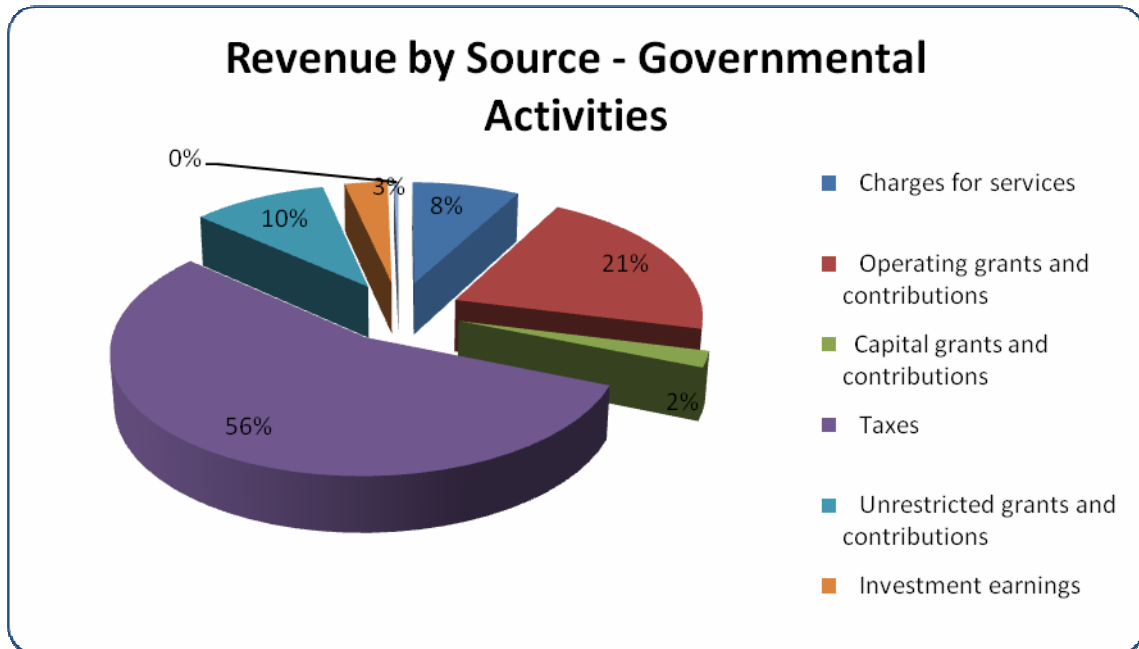
Town-wide Program Expenses



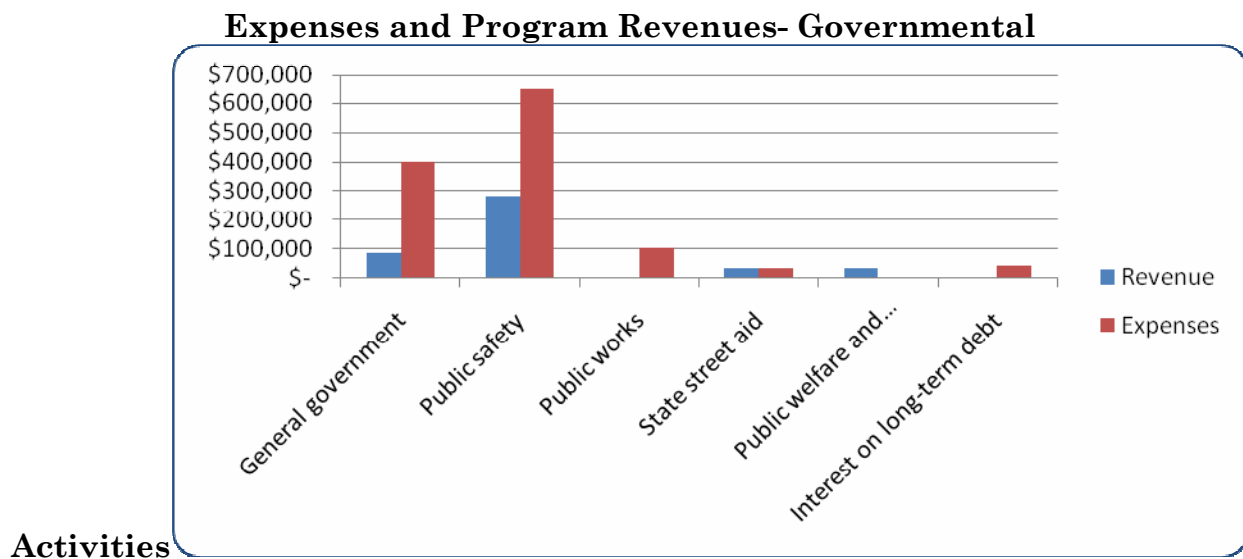
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Governmental Activities

Governmental activities accounted for revenues of \$1,410,542. The following graph summarizes revenue by source.



The following graph summarizes the revenue and related expense for each government program of the Town. The difference between expense and revenue is the financial burden placed on the Town for each program.

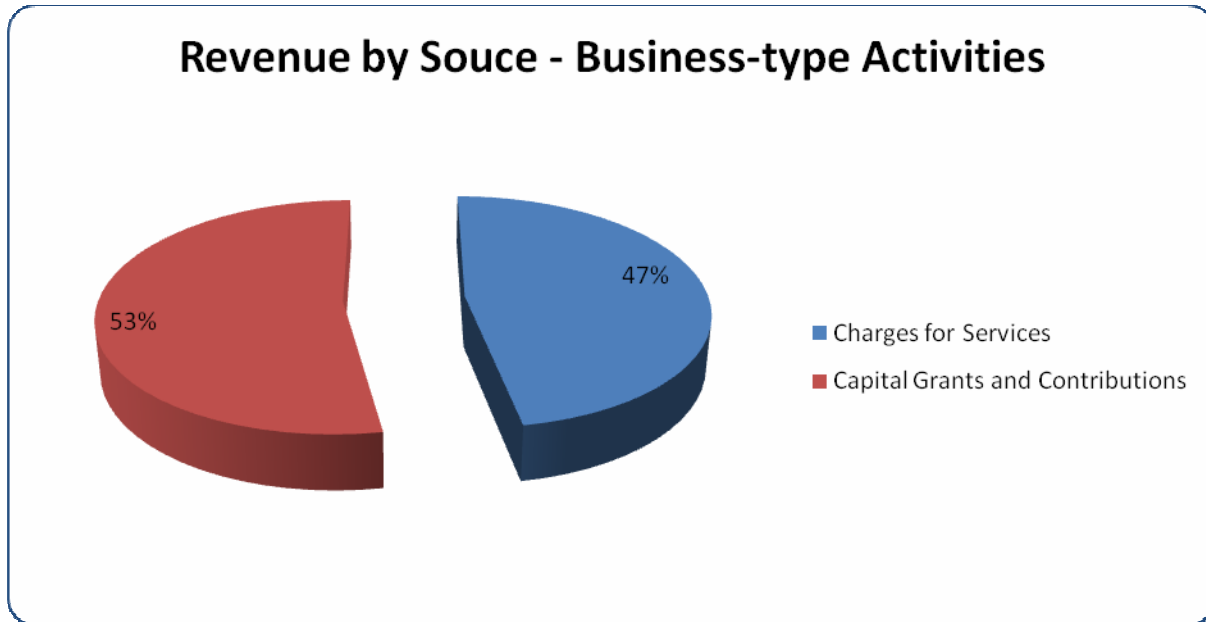


Activities

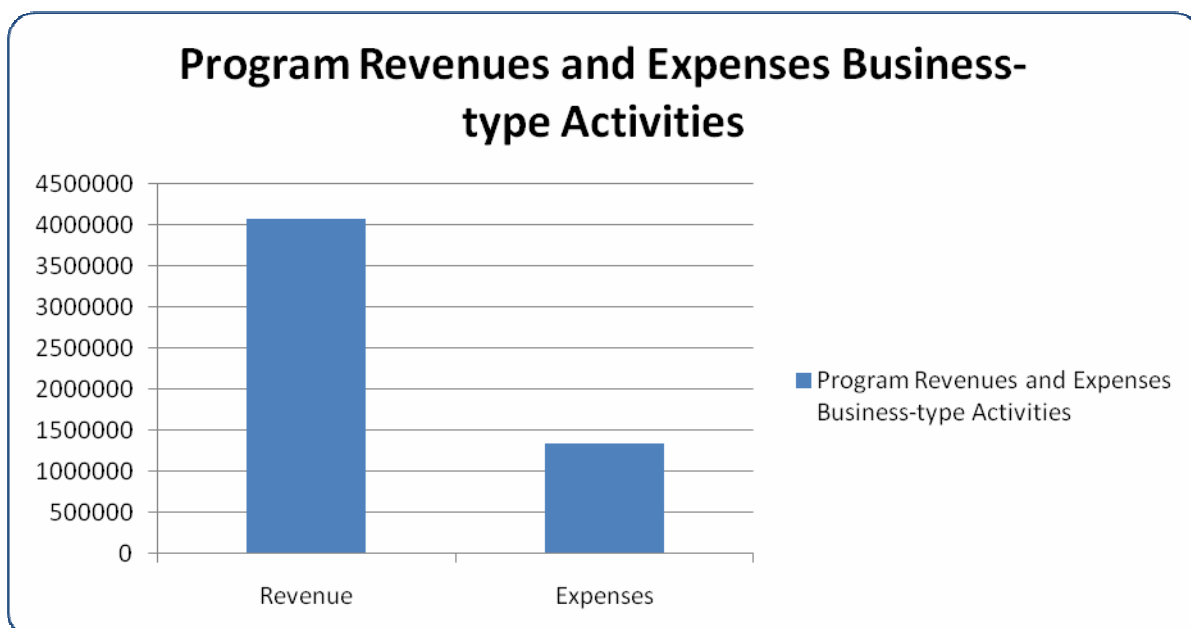
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Business-type Activities

Business-type activities accounted for revenues of \$4,066,701. The following graph summarizes the revenue by source.



The following graph summarizes the revenue and related expense of operating the water and sewer system.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town of Monteagle, Tennessee uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town of Monteagle, Tennessee's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Monteagle, Tennessee's financing requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies.

As of the end of the current fiscal year, the Town of Monteagle, Tennessee's governmental activities reported combined ending fund balances of \$1,265,322. Within the governmental funds, \$24,351 is restricted for police activities in the Drug Fund and \$31,825 is restricted for street improvements in the State Street Aid Fund. The fund balances of the Drug Fund and State Street Aid Fund are restricted due to their special revenue classification, and they appear as restricted on the governmental Balance Sheet.

The General Fund is the chief operating fund of the Town of Monteagle, Tennessee. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,161,624. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 80.09% of total fund expenditures.

Proprietary Funds

The Town of Monteagle, Tennessee's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$2,768,510 for the Water and Sewer Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

General Fund Budgetary Highlights

During the fiscal year, the original budget was amended to provide appropriations for the Expenditures of the Corridor Plan Grant in the amount of \$233,000, the Expenditures of Donations for the construction Mountain Goat Trail in the amount of \$9,800 and the expenditures of Fire Grant totaling \$16,720.

At the close of the fiscal year, actual expenditures were \$63,131 less than budgetary estimates.

Departmental budget officers closely monitored expenditures during the fiscal year in order to minimize budget amendments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town of Monteagle, Tennessee's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$11,393,604 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land rights, buildings, furniture, fixtures, equipment and vehicles, infrastructure and plant in service.

Major capital asset events during the current fiscal year include the following:

Governmental activities

Construction-In Process for the Mountain Goat Trail	\$ 94,471
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Business-type activities

Construction-In Process for Waste Water Treatment Plant	\$ 7,092,630
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Table A-3 below summarizes the Town's investment in capital assets and is broken down by governmental and business-type activities.

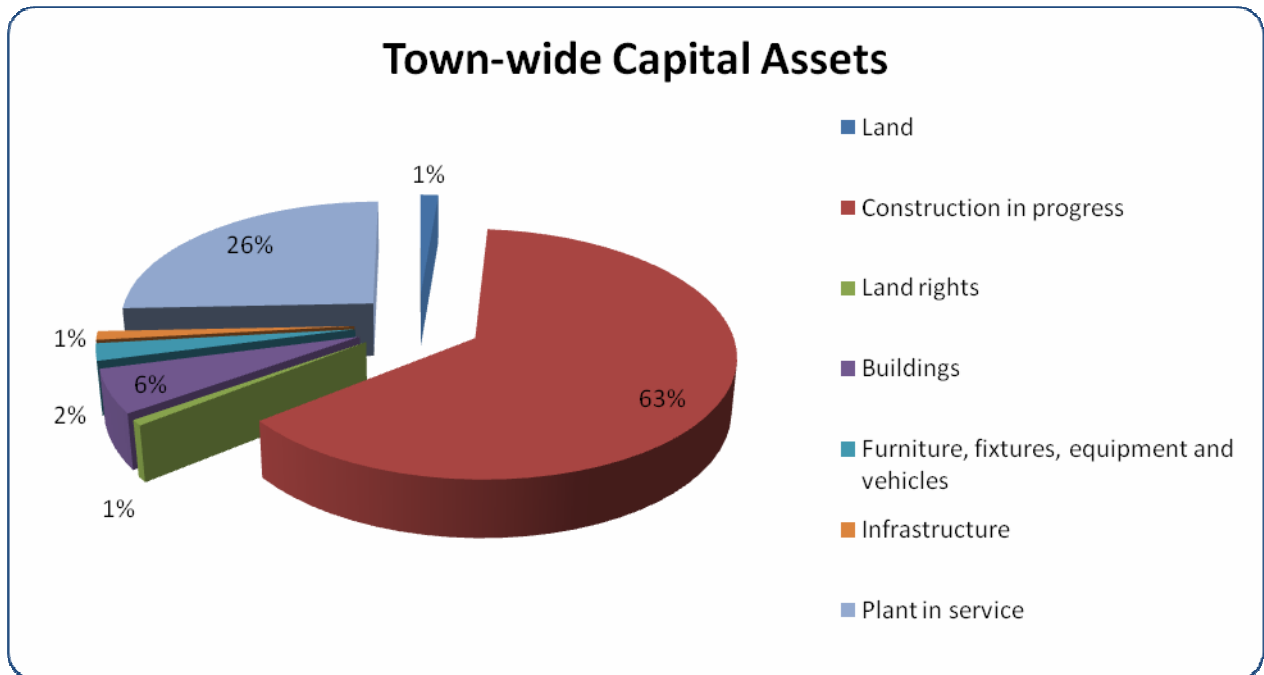
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Capital Assets

Table A-3
Capital Assets (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	2011	2010	2011	2010	2011	2010
Land	\$ 148,774	\$ 148,774	-	-	\$ 148,774	\$ 148,774
Construction in Progress	94,471	29,590	\$ 7,092,630	\$ 2,280,156	7,187,101	2,309,746
Land rights	-	-	86,918	90,049	86,918	90,049
Buildings	657,440	682,127	-	-	657,440	682,127
Furniture, fixtures, equipment and vehicles	209,924	205,470	48,805	25,379	258,729	230,849
Infrastructure	131,221	20,024	-	-	131,221	20,024
Plant in service	-	-	2,923,421	3,070,564	2,923,421	3,070,564
Total Capital Assets	\$ 1,241,830	\$ 1,085,985	\$10,151,774	\$ 5,466,148	\$ 11,393,604	\$ 6,552,133

The following graph provides a breakdown of which assets make up the largest portion of the Town's total investment in capital assets. The graph combines assets used in both governmental and business-type activities.



Additional information on the capital assets can be found in the notes of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

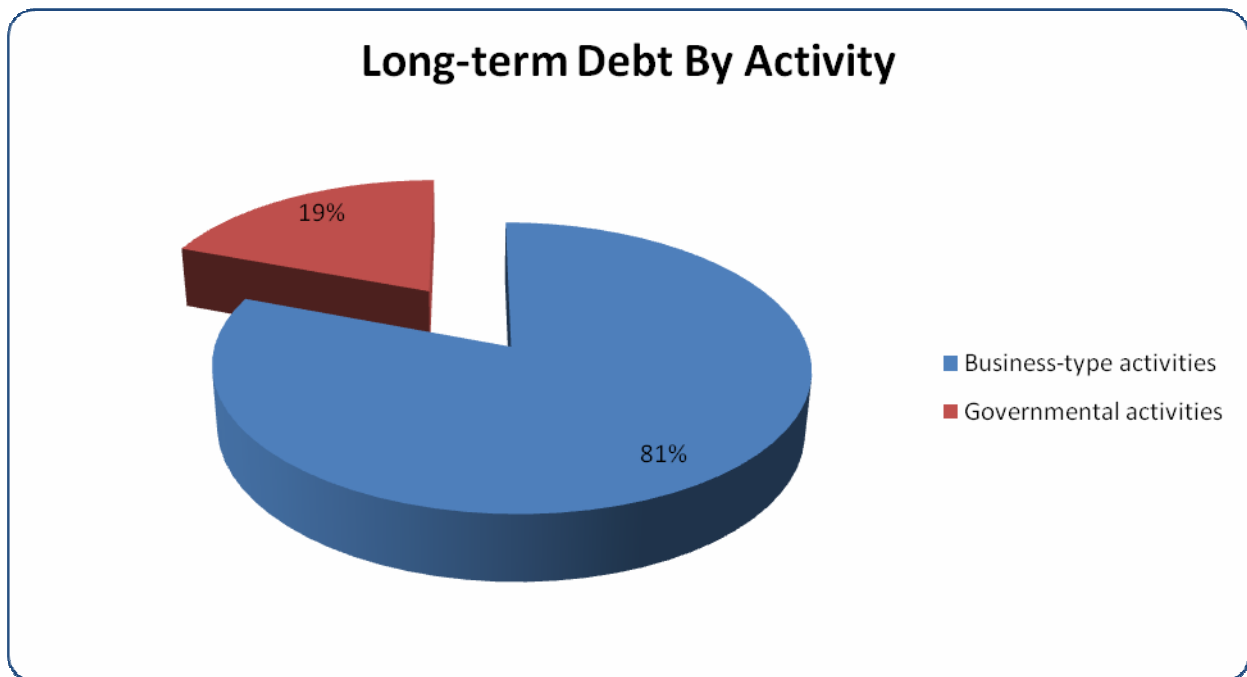
Town of Monteagle, Tennessee's Outstanding Debt

At the end of the current fiscal year, the Town of Monteagle, Tennessee had total long-term debt outstanding of \$4,218,954; of that amount \$225,649 is due in the next fiscal year. The table below summarizes outstanding debt broken down by governmental and business-type activities.

Table A-4
Town of Monteagle Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	2011	2010	2011	2010	2011	2010
Bonds Payable	\$ 562,200	\$ 580,900	\$ 344,312	\$ 392,917	\$ 906,512	\$ 973,817
Capital outlay notes payable	236,266	247,684	3,050,551	895,464	3,286,817	1,143,148
Compensated absences	13,843	16,214	11,782	8,799	25,625	25,013
Total Debt	812,309	844,798	3,406,645	1,297,180	4,218,954	2,141,978
Less current portion	(109,002)	(87,118)	(116,647)	(162,748)	(225,649)	(249,866)
Total long-term debt	\$ 703,307	\$ 757,680	\$ 3,289,998	\$ 1,134,432	\$ 3,993,305	\$ 1,892,112

The graph below, presents the breakdown between the Town's two types of activities.



Additional information on outstanding debt can be found in the notes to this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Currently Known Conditions Effecting Future Years

On September 28, 2011, the town has refinanced the following bonds: Taxable Public Improvement Revenue Bond, Series 2001, Water Revenue and Tax Bond Series 1974, Water Revenue and Tax Bond, Series 1975, Water Revenue and Tax Bond Series 1988 in two separate bonds. The first bond is for \$580,000 at 5.0537744%. The second is for \$370,000 at 2.77882292%. This will provide a net present value of savings on interest of \$110,087.

Requests for Information

This financial report is designed to provide a general overview of the Town of Monteagle, Tennessee's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the Town of Monteagle, Tennessee, P.O. Box 127, Monteagle, TN 37356.

TOWN OF MONTEAGLE, TENNESSEE

Statement of Net Assets

June 30, 2011

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 1,160,743	\$ 2,151,514	\$ 3,312,257
Investments		1,178,876	1,178,876
Receivables, net of allowance for uncollectibles	149,630	530,920	680,550
Internal balances	22,354	(22,354)	
Lease receivable	534,955		534,955
Capital assets -			
Land and construction in progress	243,245	7,092,630	7,335,875
Other capital assets, net of depreciation	998,585	3,059,144	4,057,729
Total Assets	<u>\$ 3,109,512</u>	<u>\$ 13,990,730</u>	<u>\$ 17,100,242</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 14,607	\$ 12,619	\$ 27,226
Contracts payable		1,006,200	1,006,200
Accrued liabilities	68,730	23,859	92,589
Unearned revenue	699		699
Deposits held		15,986	15,986
Long-term liabilities -			
Due within one year	109,002	116,647	225,649
Due in more than one year	703,307	3,289,998	3,993,305
Total Liabilities	<u>\$ 896,345</u>	<u>\$ 4,465,309</u>	<u>\$ 5,361,654</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 1,005,564	\$ 6,756,911	\$ 7,762,475
Restricted for -			
Highways and streets	31,990		31,990
Drug enforcement programs	24,484		24,484
Unrestricted	1,151,129	2,768,510	3,919,639
Total Net Assets	<u>\$ 2,213,167</u>	<u>\$ 9,525,421</u>	<u>\$ 11,738,588</u>

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

Statement of Activities

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities	Net Business-type Activities	Total
Governmental activities -							
General government	\$ 402,505	\$ 87,483			\$ (315,022)		\$ (315,022)
Public safety	649,504	23,966	\$ 256,131		(369,407)		(369,407)
Public works	105,604		2,657		(102,947)		(102,947)
State street aid	35,174		35,005		(169)		(169)
Public welfare and recreation	989		2,705	\$ 30,672	32,388		32,388
Interest on long-term debt	45,875				(45,875)		(45,875)
Total governmental activities	\$ <u>1,239,651</u>	\$ <u>111,449</u>	\$ <u>296,498</u>	\$ <u>30,672</u>	\$ <u>(801,032)</u>		\$ <u>(801,032)</u>
Business-type activities -							
Water and sewer	\$ <u>1,334,172</u>	\$ <u>1,919,197</u>		\$ <u>2,147,504</u>		\$ <u>2,732,529</u>	\$ <u>2,732,529</u>
Total business-type activities	\$ <u>1,334,172</u>	\$ <u>1,919,197</u>		\$ <u>2,147,504</u>		\$ <u>2,732,529</u>	\$ <u>2,732,529</u>
Total primary government	\$ <u><u>2,573,823</u></u>	\$ <u><u>2,030,646</u></u>	\$ <u><u>296,498</u></u>	\$ <u><u>2,178,176</u></u>	\$ <u><u>(801,032)</u></u>	\$ <u><u>2,732,529</u></u>	\$ <u><u>1,931,497</u></u>
General Revenues -							
Taxes -							
Sales taxes					\$ 404,829		\$ 404,829
Hotel/motel tax					194,643		194,643
Beer and liquor tax					171,467		171,467
Cable TV franchise tax					10,835		10,835
Grants and contributions not restricted to specific programs					140,597		140,597
Unrestricted investment earnings					44,727	\$ 25,864	70,591
Miscellaneous					4,825	7,218	12,043
Total general revenues					\$ <u>971,923</u>	\$ <u>33,082</u>	\$ <u>1,005,005</u>
Change in net assets					\$ 170,891	\$ 2,765,611	\$ 2,936,502
Net assets - beginning					<u>2,042,276</u>	<u>6,759,810</u>	<u>8,802,086</u>
Net assets - ending					\$ <u><u>2,213,167</u></u>	\$ <u><u>9,525,421</u></u>	\$ <u><u>11,738,588</u></u>

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

Balance Sheet
Governmental Funds

June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 1,107,319	\$ 53,424	\$ 1,160,743
Accounts receivable - net	40,258		40,258
Due from other funds	22,354		22,354
Due from other governments	106,322	3,050	109,372
Lease receivable	534,955		534,955
Total Assets	\$ <u>1,811,208</u>	\$ <u>56,474</u>	\$ <u>1,867,682</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 14,607		\$ 14,607
Accrued liabilities	52,098		52,098
Deferred revenue	535,655		535,655
Total Liabilities	\$ <u>602,360</u>		\$ <u>602,360</u>
<u>FUND BALANCES</u>			
Restricted for:			
Police activities		\$ 24,351	\$ 24,351
Street improvements		31,825	31,825
Assigned to:			
Budgetary assignment	\$ 47,224		47,224
Special revenue funds		298	298
Unassigned	1,161,624		1,161,624
Total Fund Balances	\$ <u>1,208,848</u>	\$ <u>56,474</u>	\$ <u>1,265,322</u>
Total Liabilities and Fund Balances	\$ <u>1,811,208</u>	\$ <u>56,474</u>	\$ <u>1,867,682</u>

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities**

June 30, 2011

Total Governmental Fund Balances	\$ 1,265,322
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,241,830
Other long-term assets are not available to pay for current- period expenditures and, therefore, are deferred in the funds.	534,956
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(828,941)
Net Assets of Governmental Activities	\$ <u><u>2,213,167</u></u>

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues-			
Taxes	\$ 781,774		\$ 781,774
Licenses and permits	26,088		26,088
Intergovernmental	164,274	\$ 35,005	199,279
Fines and forfeitures	23,966		23,966
Other	379,137	298	379,435
Total Revenues	<u>\$ 1,375,239</u>	<u>\$ 35,303</u>	<u>\$ 1,410,542</u>
Expenditures-			
Current expenditures -			
General government	\$ 350,065		\$ 350,065
Public safety	592,598		592,598
Public works	93,471		93,471
State street aid		\$ 35,174	35,174
Public welfare and recreation	22,175		22,175
Capital outlay	258,508		258,508
Debt service	133,547		133,547
Total Expenditures	<u>\$ 1,450,364</u>	<u>\$ 35,174</u>	<u>\$ 1,485,538</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>\$ (75,125)</u>	<u>\$ 129</u>	<u>\$ (74,996)</u>
Other Financing Sources -			
Note proceeds	\$ 57,000		\$ 57,000
Lease amortization	17,147		17,147
Total Other Financing Sources	<u>\$ 74,147</u>		<u>\$ 74,147</u>
Net change in Fund Balances	\$ (978)	\$ 129	\$ (849)
Fund Balances at beginning of year	<u>1,209,826</u>	<u>56,345</u>	<u>1,266,171</u>
Fund Balances at end of year	<u>\$ 1,208,848</u>	<u>\$ 56,474</u>	<u>\$ 1,265,322</u>

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

For the Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$	(849)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		155,845
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The repayment of principal on lease receivable is an other financing source in the governmental funds. This transaction, however, has no effect on net assets. This is the amount of the repayments.		(17,147)
--	--	----------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.		30,118
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		2,924
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Change in Net Assets of Governmental Activities	\$	<u><u>170,891</u></u>
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See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Revenues -				
Taxes -				
Hotel/motel tax	\$ 166,000	\$ 166,000	\$ 194,643	\$ 28,643
Local sales tax	375,000	375,000	404,829	29,829
Alcoholic beverage tax	57,000	57,000	52,647	(4,353)
Local beer tax	112,000	112,000	118,820	6,820
Franchise tax	10,000	10,000	10,835	835
Total taxes	<u>\$ 720,000</u>	<u>\$ 720,000</u>	<u>\$ 781,774</u>	<u>\$ 61,774</u>
Licenses and Permits -				
Building licenses and permits	<u>\$ 26,000</u>	<u>\$ 26,000</u>	<u>\$ 26,088</u>	<u>\$ 88</u>
Intergovernmental Revenues -				
State sales tax allocation	\$ 72,000	\$ 72,000	\$ 82,445	\$ 10,445
State and federal grants		226,720	21,020	(205,700)
State mixed drink tax	19,000	19,000	19,524	524
State beer tax	600	600	646	46
State income tax	13,000	13,000	24,050	11,050
TVA In lieu of tax	13,000	13,000	13,932	932
State city streets and transportation	2,500	2,500	2,657	157
Total intergovernmental	<u>\$ 120,100</u>	<u>\$ 346,820</u>	<u>\$ 164,274</u>	<u>\$ (182,546)</u>
Fines and forfeitures -				
Court fines	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 23,966</u>	<u>\$ 3,966</u>
Other Revenue -				
E-911 collections	\$ 192,336	\$ 192,336	\$ 198,697	\$ 6,361
Miscellaneous	3,000	3,000	4,732	1,732
Fees and commissions	2,000	2,000	(40)	(2,040)
Interest	7,600	7,600	6,709	(891)
Capital lease interest			37,853	37,853
Local grant			20,872	20,872
Rent of facilities	117,000	117,000	61,395	(55,605)
Recreation donations			2,705	2,705
Fire department donations	12,000	12,000	36,414	24,414
Mountain goat trail donations		9,800	9,800	
Total other revenue	<u>\$ 333,936</u>	<u>\$ 343,736</u>	<u>\$ 379,137</u>	<u>\$ 35,401</u>
TOTAL REVENUES	<u>\$ 1,220,036</u>	<u>\$ 1,456,556</u>	<u>\$ 1,375,239</u>	<u>\$ (81,317)</u>

TOWN OF MONTEAGLE, TENNESSEE

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (continued)

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Expenditures -				
General Government -				
Financial administration -				
Salaries	\$ 85,000	\$ 85,000	\$ 86,577	\$ (1,577)
Travel and training	2,000	2,000	9,268	(7,268)
Insurance	49,900	49,900	57,713	(7,813)
Payroll tax	6,503	6,503	6,623	(120)
Repairs and maintenance	5,000	5,000	13,582	(8,582)
Advertising	9,000	9,000	6,267	2,733
Utilities and telephone	30,200	30,200	30,164	36
Professional and contract services	37,200	37,200	78,808	(41,608)
Miscellaneous	4,525	4,525	19,536	(15,011)
Supplies	26,750	26,750	31,684	(4,934)
Dues and subscriptions	3,700	3,700	4,032	(332)
Total financial administration	<u>\$ 259,778</u>	<u>\$ 259,778</u>	<u>\$ 344,254</u>	<u>\$ (84,476)</u>
Planning and zoning -				
Supplies	\$ 400	\$ 400	\$ 449	\$ (49)
Planning services	5,500	5,500	5,362	138
Total planning and zoning	<u>\$ 5,900</u>	<u>\$ 5,900</u>	<u>\$ 5,811</u>	<u>\$ 89</u>
Total general government	<u>\$ 265,678</u>	<u>\$ 265,678</u>	<u>\$ 350,065</u>	<u>\$ (84,387)</u>
Public Safety -				
E 911 -				
Salaries	\$ 188,149	\$ 188,149	\$ 193,440	\$ (5,291)
Travel and training	1,500	1,500		1,500
Payroll tax	14,393	14,393	14,513	(120)
Insurance	32,950	32,950	35,997	(3,047)
Repairs and maintenance	3,500	3,500		3,500
Miscellaneous	1,500	1,500	200	1,300
Supplies	1,000	1,000	363	637
Utilities and telephone	8,500	8,500	9,021	(521)
Total E-911	<u>\$ 251,492</u>	<u>\$ 251,492</u>	<u>\$ 253,534</u>	<u>\$ (2,042)</u>

(continued)

TOWN OF MONTEAGLE, TENNESSEE

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (continued)

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Public Safety (continued) -				
Police Department -				
Salaries	\$ 182,000	\$ 182,000	\$ 175,399	\$ 6,601
Travel and training	2,800	2,800	1,996	804
Insurance	46,900	46,900	30,952	15,948
Payroll tax	13,923	13,923	13,409	514
Repairs and maintenance	10,000	10,000	20,895	(10,895)
Vehicle expense	30,000	30,000	19,128	10,872
Contract services			2,480	(2,480)
Miscellaneous	1,600	1,600	1,605	(5)
Uniforms	2,500	2,500	744	1,756
Supplies	2,700	2,700	6,284	(3,584)
Utilities and telephone	10,000	10,000	10,191	(191)
Total police department	<u>\$ 302,423</u>	<u>\$ 302,423</u>	<u>\$ 283,083</u>	<u>\$ 19,340</u>
Fire Department -				
Salaries	\$ 8,400	\$ 8,400	\$ 7,500	\$ 900
Insurance	40	40		40
Payroll tax	642	642	627	15
Education and training	1,000	1,000	996	4
Repairs and maintenance	7,500	7,500	15,055	(7,555)
Vehicle expense	10,000	10,000	571	9,429
Miscellaneous	1,500	1,500	167	1,333
Supplies	3,500	20,220	20,111	109
Utilities and telephone	3,000	3,000	3,666	(666)
Contract services	5,150	5,150	7,288	(2,138)
Total fire department	<u>\$ 40,732</u>	<u>\$ 57,452</u>	<u>\$ 55,981</u>	<u>\$ 1,471</u>
Total public safety	<u>\$ 594,647</u>	<u>\$ 611,367</u>	<u>\$ 592,598</u>	<u>\$ 18,769</u>
Public Works -				
Street department -				
Salaries	\$ 58,700	\$ 58,700	\$ 50,606	\$ 8,094
Insurance	13,704	13,704	9,936	3,768
Payroll tax	4,490	4,490	3,871	619
Repairs and maintenance	18,000	18,000	26,292	(8,292)
Miscellaneous	3,700	3,700	2,767	933
Total public works	<u>\$ 98,594</u>	<u>\$ 98,594</u>	<u>\$ 93,472</u>	<u>\$ 5,122</u>

(continued)

TOWN OF MONTEAGLE, TENNESSEE

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (continued)

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Public Welfare and Recreation -				
Parks and recreation -				
Salaries	\$ 12,000	\$ 12,000		\$ 12,000
Insurance	90	90		90
Payroll tax	920	920		920
Professional fees	18,000	18,000	\$ 460	17,540
Supplies			2,440	(2,440)
Repairs and maintenance	10,000	10,000	19,275	(9,275)
Total public welfare and recreation	<u>\$ 41,010</u>	<u>\$ 41,010</u>	<u>\$ 22,175</u>	<u>\$ 18,835</u>
Capital outlay -				
General government	\$ 6,500	\$ 239,500	\$ 39,063	\$ 200,437
Public safety	29,000	29,000	62,470	(33,470)
Public works	80,000	80,000	117,639	(37,639)
Parks and recreation	5,000	14,800	39,336	(24,536)
Total capital outlay	<u>\$ 120,500</u>	<u>\$ 363,300</u>	<u>\$ 258,508</u>	<u>\$ 104,792</u>
Debt service -				
Principal paid	\$ 87,118	\$ 87,118	\$ 87,118	
Interest	46,428	46,428	46,428	
Total debt service	<u>\$ 133,546</u>	<u>\$ 133,546</u>	<u>\$ 133,546</u>	
 TOTAL EXPENDITURES	 <u>\$ 1,253,975</u>	 <u>\$ 1,513,495</u>	 <u>\$ 1,450,364</u>	 <u>\$ 63,131</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 <u>\$ (33,939)</u>	 <u>\$ (56,939)</u>	 <u>\$ (75,125)</u>	 <u>\$ (18,186)</u>
 Other Financing Sources -				
Note proceeds			\$ 57,000	\$ 57,000
Lease amortization			17,147	17,147
Total Other Financing Sources			<u>\$ 74,147</u>	<u>\$ 74,147</u>
 Net change in fund balance	 <u>\$ (33,939)</u>	 <u>\$ (56,939)</u>	 \$ (978)	 <u>\$ 55,961</u>
 Fund Balance at beginning of year			<u>1,209,826</u>	
Fund Balance at end of year			<u>\$ 1,208,848</u>	

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

Balance Sheet
Proprietary Fund

June 30, 2011

	<u>Enterprise</u> <u>Water and</u> <u>Sewer</u> <u>Fund</u>
 <u>ASSETS</u>	
Current Assets -	
Cash	\$ 2,151,514
Investments	1,178,876
Accounts receivable - net	169,361
Due from State	361,559
Total Current Assets	<u>\$ 3,861,310</u>
Capital Assets -	
Construction in progress	\$ 7,092,630
Other capital assets, net of depreciation	3,059,144
Total Noncurrent Assets	<u>\$ 10,151,774</u>
Total Assets	<u><u>\$ 14,013,084</u></u>
 <u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities -	
Accounts payable	\$ 12,619
Contracts payable	1,006,200
Due to other funds	22,354
Accrued liabilities	23,859
Bonds payable - current	50,715
Capital outlay notes payable - current	65,932
Total Current Liabilities	<u>\$ 1,181,679</u>
Noncurrent Liabilities -	
Customers deposits	\$ 15,986
Bonds payable	293,597
Capital outlay notes payable	2,984,619
Compensated absences	11,782
Total Noncurrent Liabilities	<u>\$ 3,305,984</u>
Total Liabilities	<u>\$ 4,487,663</u>
Net Assets -	
Invested in capital assets, net of related debt	\$ 6,756,911
Unrestricted	2,768,510
Total Net Assets	<u>\$ 9,525,421</u>
Total Liabilities and Net Assets	<u><u>\$ 14,013,084</u></u>

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund

Year Ended June 30, 2011

	<u>Enterprise</u> <u>Water</u> <u>and Sewer</u> <u>Fund</u>
Operating Revenues -	
Water sales and sewer charges	\$ 1,900,814
Connection fees	18,383
Total operating revenue	\$ <u>1,919,197</u>
Operating Expenses -	
Water transmission and treatment	\$ 178,385
Sewer treatment	258,909
Water maintenance	58,403
Sewer maintenance	115,330
Administration	316,696
Depreciation	382,027
Total operating expenses	\$ <u>1,309,750</u>
Operating Income (Loss)	\$ <u>609,447</u>
Non-operating Revenues (Expenses) -	
Interest	\$ 25,864
Miscellaneous revenue	7,218
Grant revenue	581,775
Grant revenue - ARRA debt forgiveness	1,565,729
Interest expense	(24,422)
Total non-operating revenues (expenses)	\$ <u>2,156,164</u>
Change in Net Assets	\$ 2,765,611
Net Assets at beginning of year	<u>6,759,810</u>
Net Assets at end of year	\$ <u><u>9,525,421</u></u>

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2011

	<u>Enterprise Water and and Sewer Fund</u>
Cash Flows from Operating Activities -	
Receipts from customers	\$ 1,919,226
Payments to suppliers	(600,420)
Payments to employees	(320,169)
Net Cash Provided (Used) by Operating Activities	<u>\$ 998,637</u>
Cash Flows from Capital and Related Financing Activities -	
Proceeds from notes	\$ 2,269,230
Principal paid on bonds and notes	(162,748)
Interest paid on bonds and notes	(24,422)
Capital grants and contributions	2,004,258
Other receipts	7,218
Acquisition and construction of capital assets	(4,947,123)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (853,587)</u>
Cash Flows From Investing Activities -	
Interest revenue	\$ 10,785
Net Cash Provided (Used) by Investing Activities	<u>\$ 10,785</u>
Net Increase (Decrease) in cash	\$ 155,835
Cash at beginning of year	1,995,679
Cash at end of year	<u><u>\$ 2,151,514</u></u>
Reconciliation of Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 609,447
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	382,027
Changes in assets and liabilities -	
(Increase) decrease in accounts receivable	(3,807)
Increase (decrease) in accounts payable	(18,650)
Increase (decrease) in due to other funds	21,083
Increase (decrease) in accrued liabilities	4,503
Increase (decrease) in customer deposits	1,051
Increase (decrease) in compensated absences	2,983
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 998,637</u></u>
Non-Cash Capital and Related Financing Activities -	
Utility acquisition debt incurred	<u><u>\$ 1,006,200</u></u>

See notes to financial statements.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements

June 30, 2011

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Monteagle, Tennessee (the "Town") operates under a Mayor and Board of Aldermen form of government. The Town's major operations include the following departments: general government, public safety, public works, state street aid, and public welfare and recreation. In addition, the Town owns and operates a water and sewer system.

The accounting and reporting policies of the Town relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has elected not to apply to its business-type activities and enterprise fund Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The GASB periodically updates its codification of the existing Governmental Accounting and Standards, which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting policies of the Town are described below.

Reporting Entity

The Town, for financial purposes, includes all the funds relevant to the operations of the Town of Monteagle, Tennessee (the primary government). The Town is also required to include in its financial statements those separately administered organizations (component units) with which the Town has significant operational or financial relationships. The criteria for including organizations as component units within the Town's reporting entity include whether the organization is legally separate and whether the Town holds the corporate powers, whether the Town appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the Town. Based on the foregoing criteria, the Town of Monteagle has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due.

Sales taxes, franchise taxes, beer and liquor taxes, hotel and motel taxes, state and federal grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The financial transactions of the Town are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classifications within the financial statements.

The Town reports the following major governmental fund:

General Fund - The General Fund is the primary operating fund of the Town. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for revenues and expenses related to potable water and sanitary sewer services provided to residents of the Town.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses of the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash consists of cash-on-hand and on-deposit with financial institutions. For purposes of reporting cash on the Statement of Net Assets, the Town considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash is reported on the Statement of Cash Flows as "Cash". At June 30, 2011, the Town had no cash equivalents.

Investments - All investments are stated at fair value for all funds.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., primary roads, secondary roads, drainage), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The Town's policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Depreciation of capital assets is computed and recorded by the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	5-40 years
Furniture, fixtures, equipment and vehicles	3-10 years
Infrastructure	20 years
Land rights	39 years
Plant in service	5-40 years

Compensated Absences - Town employees are paid for vacation and absence due to sickness by prescribed formulas based on length of service. Vacation and sick leave for employees of governmental funds are recorded as expenditures in the period they are used and considered payable from current financial resources. Sick leave does not vest for Town employees, so no liability exists at year-end. Vacation leave is based on employment date, and unused vacation leave does not carryover beyond the end of the fiscal year-end.

Long-term Debt - In government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt or other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund balance - Governmental funds utilize a fund balance presentation of equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance cannot be spent because of its form.

Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions.

Committed fund balance is a limitation imposed by the Town Board of Aldermen through ordinances.

Assigned fund balances is a limitation imposed by a designee of the Board of Alderman.

Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes. Proprietary fund equity is classified the same as in the government-wide statements.

When both restricted and unrestricted fund balances are available for use, it is the Town's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Net Assets - For the government-wide financial statements, net assets are reported as restricted when constraints placed on net assets are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Estimates - Management is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Prepayment of Expenditures - Governmental fund expenditures for insurance and similar services extending over more than one accounting period are not allocated between accounting periods but accounted for as expenditures of the period of acquisition.

Note B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that, "long-term liabilities, including bonds and loans payable, are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$(828,941) difference are as follows:

Bonds payable	\$ (562,200)
Capital outlay notes payable	(236,266)
Compensated absences	(13,843)
Accrued interest	(16,632)
	<u>\$ (828,941)</u>

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net change in fund balances - total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide financial statement of activities. One element of that reconciliation explains that, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period". The details of this \$155,845 difference are as follows:

Capital outlay	\$ 247,439
Depreciation expense	(91,594)
	<u>\$ 155,845</u>

Another element of that reconciliation states that, "The repayment of principal on long-term debt consumes the current financial resources of governmental funds. This transaction, however, has no effect on net assets. This is the amount of repayments." The details of this \$30,118 difference are as follows:

Public improvement bond repayment	\$ 18,700
Town hall note repayment	68,418
Police vehicle note proceeds	(57,000)
	<u>\$ 30,118</u>

Note C - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting - General governmental revenue and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements, which govern the Town's operations.

Each year during April and May, budget requests from departments are submitted to the Town Recorder. Budget items submitted are discussed at these regularly scheduled meetings and in special work session meetings in June.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note C - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Subsequently the budget is enacted through vote of the Aldermen with an operative date of July 1. Budgets, as adopted and amended, are adopted for the General Fund and Special Revenue Funds on a basis consistent with generally accepted accounting principles. These formal budgets are adopted on a departmental basis. The Town Mayor is authorized to transfer budgeted amounts between departments within any fund. However, any revision that alters the total expenditures of any fund must be approved by the Board of Aldermen. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations that are not expended lapse at year end.

A budget for the Water and Sewer Fund is adopted as a management tool only.

Note D - DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits and investments - This is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2011, the carrying amount of the Town's deposits was \$4,490,533, and the bank balance was \$4,697,300. At year end, the Town's bank balances were fully collateralized.

The carrying amount of the Town's deposits is classified as follows on the Statement of Net Assets:

Cash	\$ 3,312,257
Investments	1,178,876
Less: petty cash	(600)
Total	<u>\$ 4,490,533</u>

Investments - State statutes authorize the Town to invest operating funds in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. The Town's investments are carried at fair value which is based on quoted market prices, and consist of certificates-of-deposit totaling \$1,178,876. The Town's investments are listed on the Statement of Net Assets as "Investments".

Interest rate risk - The Town does not have a formal policy to limit exposure to interest rate risk for investments.

Note E - ACCOUNTS RECEIVABLE-NET

Receivables at June 30, 2011, consist of the following:

	General Fund	Water and Sewer Fund	Total
Customer receivables		\$ 210,815	\$ 210,815
Less: allowance for doubtful accounts		(41,454)	(41,454)
Local alcoholic beverage tax	\$ 4,285		4,285
Local beer tax	11,609		11,609
Local occupancy tax	22,807		22,807
Local franchise tax	1,557		1,557
Total	<u>\$ 40,258</u>	<u>\$ 169,361</u>	<u>\$ 209,619</u>

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note F - DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2011, consist of the following:

	General Fund	State Street Aid Fund	Total
Local sales tax	\$ 72,833		\$ 72,833
Gas and motor fuel tax		\$ 3,050	3,050
City streets and transportation	221		221
State sales tax	7,154		7,154
Mixed drink tax	2,064		2,064
State income tax	24,050		24,050
Total	\$ 106,322	\$ 3,050	\$ 109,372

Note G - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
<u>Governmental activities -</u>				
Capital Assets not being depreciated -				
Land	\$ 148,774			\$ 148,774
Construction in progress	29,590	\$ 64,881		94,471
Subtotal	\$ 178,364	\$ 64,881		\$ 243,245
Capital assets being depreciated -				
Buildings	\$ 1,044,374			\$ 1,044,374
Furniture, fixtures, equipment, and vehicles	946,693	\$ 69,034		1,015,727
Infrastructure	27,620	113,524		141,144
Subtotal	\$ 2,018,687	\$ 182,558		\$ 2,201,245
Less accumulated depreciation for:				
Buildings	\$ 362,247	\$ 24,686		\$ 386,933
Furniture, fixtures, equipment, and vehicles	741,223	64,581		805,804
Infrastructure	7,596	2,327		9,923
Subtotal	\$ 1,111,066	\$ 91,594		\$ 1,202,660
Capital assets, being depreciated, net	\$ 907,621	\$ 90,964		\$ 998,585
Capital assets, net	\$ 1,085,985	\$ 155,845		\$ 1,241,830

Depreciation expense was charged to the functions of the primary government as follows:

General government	\$ 20,548
Public safety	56,496
Public works	10,192
Public welfare and recreation	4,358
Total governmental activities depreciation expense	\$ 91,594

TOWN OF MONTEAGLE, TENNESSEE**Notes to Financial Statements (continued)****June 30, 2011****Note G - CAPITAL ASSETS (continued)**

	Balance July 1, 2010	Increases	Transfers	Balance June 30, 2011
<u>Business-type activities -</u>				
Capital assets, not being depreciated -				
Construction in progress	\$ 2,280,156	\$ 5,032,812	\$ (220,338)	\$ 7,092,630
Subtotal	\$ 2,280,156	\$ 5,032,812	\$ (220,338)	\$ 7,092,630
Capital assets being depreciated -				
Land rights	\$ 122,082			\$ 122,082
Plant in service	6,877,748		\$ 220,338	7,098,086
Equipment	197,161	\$ 34,841		232,002
Subtotal	\$ 7,196,991	\$ 34,841	\$ 220,338	\$ 7,452,170
Less accumulated depreciation for:				
Land rights	\$ 32,033	\$ 3,131		\$ 35,164
Plant in service	3,807,184	367,481		4,174,665
Equipment	171,782	11,415		183,197
Subtotal	\$ 4,010,999	\$ 382,027		\$ 4,393,026
Capital assets, being depreciated, net	\$ 3,185,992	\$ (347,186)	\$ 220,338	\$ 3,059,144
Capital assets, net	\$ 5,466,148	\$ 4,685,626	\$ -	\$ 10,151,774

Interest capitalized during the year ended June 30, 2011, in the Water and Sewer Fund was \$27,660.

Note H - LONG-TERM LIABILITIES**Governmental Activities**

Long-term liabilities, payable by the governmental funds, which consists of a bond payable, a note payable, and compensated absences are summarized as follows:

	Principal Balance at June 30, 2011
Town of Monteagle Taxable Public Improvement Revenue Bond, Series 2001, original amount \$692,100, payable in varying amounts at 7.1% interest, maturing 2027	\$ 562,200
Capital Outlay Note Payable - Mountain Valley Bank, Series 2003, New Town Hall, original amount \$650,000 at 2.70% interest, maturing 2013	179,266
Series 2010, Police Vehicles, original amount \$57,000 at 1.45% interest, maturing 2013	57,000
Compensated absences	13,843
	\$ 812,309
Less: current portion of governmental long-term liabilities	(109,002)
Total governmental long-term liabilities	\$ 703,307

A summary of changes in governmental long-term debt for the year ended June 30, 2011, are as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
<i>Governmental Activities -</i>					
Public improvement bond	\$ 580,900		\$ (18,700)	\$ 562,200	\$ 20,000
Town Hall note	247,684		(68,418)	179,266	70,279
Police vehicle note		\$ 57,000		57,000	18,723
Compensated absences	16,214		(2,371)	13,843	
Total	\$ 844,798	\$ 57,000	\$ (89,489)	\$ 812,309	\$ 109,002

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note H - LONG-TERM LIABILITIES (continued)

Interest paid during the year ended June 30, 2011, on governmental long-term liabilities was \$46,429.

Governmental activities debt service requirements to maturity are as follows:

Year ended June 30	Principal	Interest	Total Requirements
2012	\$ 109,002	\$ 44,032	\$ 153,034
2013	112,609	40,356	152,965
2014	78,955	36,739	115,694
2015	24,600	34,478	59,078
2016	26,300	32,671	58,971
2017-2021	162,400	131,436	293,836
2022-2026	228,700	62,660	291,360
2027	55,900	1,985	57,885
	<u>\$ 798,466</u>	<u>\$ 384,357</u>	<u>\$ 1,182,823</u>

The proceeds of the public improvement bond were used for the purpose of financing the costs of public works projects, including acquisition of land and the construction and equipping thereon of a public building to be leased to the United States Postal Service. The Town has pledged the revenues (lease payments) derived from the project. The proceeds of the Town Hall note were used to construct the Monteagle Town Hall. The Town has pledged the constructed property and its contents as collateral for this note. The proceeds of the police vehicle note were used to procure two vehicles for the police department.

Business-Type Activities

Long-term liabilities, payable by the Water and Sewer Fund, which consists of revenue bonds, notes payable and compensated absences are summarized as follows:

	Principal Balance at June 30, 2011
Water and Sewer Bonds	
Water and Sewer Revenue and Tax Bonds, Series 1974, 5.0%, due 2014	\$ 69,925
Water and Sewer Revenue and Tax Bonds, Series 1975, 5.0%, due 2015	17,000
Water and Sewer Revenue and Tax Bonds, Series 1988, 6.125%, due 2021	<u>257,387</u>
	\$ 344,312
Less: current portion of water and sewer bond debt	<u>(50,715)</u>
Total water and sewer bonds payable	<u>\$ 293,597</u>
Water and Sewer Notes	
State of Tennessee Public Health Loan	
Note SRF 88-001 - 1.458% interest, due 2012	\$ 56,342
State of Tennessee Public Health Loan	
Note SRF CWA 2009-226 - 1.79%	2,984,619
Citizens Tri-County Bank Note - 5.68% interest, due 2012	<u>9,590</u>
	\$ 3,050,551
Less: current portion of water and sewer note debt	<u>(65,932)</u>
Total water and sewer notes payable	<u>\$ 2,984,619</u>
Compensated absences	<u>\$ 11,782</u>
Total water and sewer long-term debt	<u>\$ 3,289,998</u>

Interest paid during the year ended June 30, 2011, on water and sewer long-term debt was \$53,149.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note H - LONG-TERM LIABILITIES (continued)

A summary of changes in business-type long-term liabilities for the year ended June 30, 2011, are as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
<i>Business-Type Activities -</i>					
RDA 1974 Bond	\$ 96,925		\$ (27,000)	\$ 69,925	\$ 28,000
RDA 1975 Bond	21,000		(4,000)	17,000	4,000
RDA 1988 Bond	274,992		(17,605)	257,387	18,715
Note SRF 88-001	130,490		(74,148)	56,342	56,342
Note SRF CWA 2009-226	715,389	\$ 2,269,230		2,984,619	
Citizens Tri-County Note - 2002	49,585		(39,995)	9,590	9,590
Compensated absences	8,799	2,983		11,782	
Total	\$ 1,297,180	\$ 2,272,213	\$ (162,748)	\$ 3,406,645	\$ 116,647

Water and Sewer Revenue and Tax Bonds - The Water and Sewer Revenue and Tax Bonds were issued for the purpose of paying part of the cost of constructing water and sewer improvements. These bonds are payable primarily from and secured by a pledge of the income and revenues to be derived from the operation of the water and sewer system, subject only to the payment of the reasonable and necessary cost of operating and maintaining said system.

State Revolving Loans - The Water and Sewer Fund has a state revolving fund (SRF) loan (CWA 2009-226) to fund the Wastewater Facilities Project. The total approved amount of the loan was \$6,200,000. This amount was divided into three parts; SRF Loan of \$3,100,000, American Recovery and Reinvestment (ARRA) SRF loan of \$620,000 and ARRA funded debt forgiveness of \$2,480,000. The Department is required only to make monthly interest payments at a rate of 1.79%, per annum, on the SRF loan and ARRA SRF loan portions. Within 90 days after the project is complete or within 120 days after 90% of the project loan has been disbursed, whichever comes first, the Town is required to begin making principal and interest payments. The Town has pledged users' fees and charges and/or ad valorem taxes as needed to pay the monthly installments due. Monteagle covenants to establish and collect such fees and taxes and to make such adjustments to raise funds sufficient to pay such monthly payments and costs but to create only a minimum excess. As further security the Town pledges and assigns its unobligated state-shared taxes in an amount equal to the maximum annual debt service requirements.

The Water and Sewer Fund has another SRF loan (88-001), the proceeds of which were used for the purpose of paying part of the cost of constructing water and sewer improvements. The Town has pledged users' fees and charges and/or ad valorem taxes as needed to pay the monthly installments due. Monteagle covenants to establish and collect such fees and taxes and to make such adjustments to raise funds sufficient to pay such monthly payments and costs but to create only a minimum excess. As further security the Town pledges and assigns its unobligated state-shared taxes in an amount equal to the maximum annual debt service requirements.

Citizens Tri-County Note - The proceeds of the Citizens Tri-County Note - 2002, were used for the purpose of paying part of the cost of constructing water and sewer improvements. The Town has pledged the constructed property and its contents.

Water and sewer debt service requirements to maturity are as follows:

Year ended	Principal	Interest	Total Requirements
June 30			
2012	\$ 116,647	\$ 20,035	\$ 136,682
2013	53,893	16,813	70,706
2014	37,072	13,859	50,931
2015	27,479	11,731	39,210
2016	23,895	10,065	33,960
2017-2021	144,046	25,754	169,800
2022	7,212	59	7,271
	\$ 410,244	\$ 98,316	\$ 508,560

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note H - LONG-TERM LIABILITIES (continued)

The State of Tennessee Public Health Note SRF CWA 2009-226 has been excluded from the above debt service requirements due to the uncertain start date of payments on this loan. The balance of this loan at June 30, 2011 was \$2,984,619.

Note I - INTERFUND TRANSACTIONS

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expenses in the fund that is reimbursed. All other legally authorized transfers are not eliminated but treated as operating transfers and are included as other financing sources or uses in the governmental funds and reported after non-operating revenues or expenses in the enterprise funds.

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) the payments between funds are made. Interfund receivable and payable balances at June 30, 2011, arising from these transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund		
Water and Sewer Fund	\$ <u>22,354</u>	
Water and Sewer Fund		
General Fund		\$ <u>22,354</u>
	\$ <u>22,354</u>	\$ <u>22,354</u>

Note J - PENSION PLAN

The Town has established a SIMPLE IRA plan, which is a defined contribution plan covering substantially all employees over 21 years of age with six (6) months of service. Required monthly contributions by the Town are deposited directly into each employee's own individual retirement account. The Town matches each eligible employee's salary dollar for dollar up to 3% of the individual salary. During the year ended June 30, 2011, the town contributed \$2,980 to the plan. All accounts are vested immediately and the Town incurs no expense, nor has any residual interest in the plan.

Note K - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, errors and omissions, damages to assets and injuries to employees. The Town has joined the Tennessee Municipal League (TML) Risk Management Pool. The membership allows the Town to share liability, motor vehicle, and employee injury risks.

The TML Risk Management Pool is a governmental entity organized by Tennessee cities as a not-for-profit corporation to provide liability and workers' compensation coverage to Tennessee cities. Emphasis is on risk management and controlling losses, as all costs are shared by the Pool member cities. An extensive program of loss prevention, employee training, and legal counsel supplements experienced claims processing for member cities.

The Town has the following policies through the TML Risk Management Pool:

Comprehensive Liability Coverage - The policy provides general and automobile liability coverage of \$300,000 per person per injury with a maximum liability of \$700,000 per occurrence. The policy provides general and automobile liability coverage for property damaged of \$100,000 per occurrence. The policy also provides coverage limited to \$1,000,000 per occurrence for errors and omissions.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note K - RISK MANAGEMENT (continued)

Property and Crime Coverage - The blanket limit for each occurrence under this policy is \$9,716,959. The policy has a limit of coverage of \$150,000 for employee dishonesty and \$100,000 for forgery or alteration, theft, disappearance, or destruction, or computer fraud.

Workers' Compensation Coverage - The policy has liability limits of \$300,000 per individual per accident or disease with a \$700,000 policy limit. This policy is a retrospectively rated policy and premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

The responsibilities of the Town are as follows:

To pay all contributions or other sums due to TML at such times and in such amounts as shall be established by TML.

To allow TML and its agents reasonable access to all facilities of the Town and all records, including but not limited to financial records, which relate to the purposes of TML during the coverage period and up to (3) three years afterward.

To allow attorneys appointed by TML to represent the Town in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Town within the scope of loss protection furnished by TML.

To assist and cooperate in the defense and settlement of claims against the Town.

To furnish full cooperation to TML's attorneys, claims adjusters, and any agent, employee, officer or independent contractor of TML relating to the purposes of TML.

To follow all loss reduction and prevention procedures established by TML where possible.

To furnish to TML such operating and underwriting information as may be requested.

To report as promptly as possible, and in accordance with any conditions issued, all incidents which could result in TML being required to pay a claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection in which the Town participates.

To allow TML to inspect and appraise any damaged property before its repair or disposition.

The Town must cooperate with the pool in any dispute resolutions with other insurance companies.

The responsibilities of TML are as follows:

TML will defend any suit against the Town or covered party seeking damages even if any of the allegations of the suit are groundless, false, or fraudulent.

TML's duty to pay on behalf of or to indemnify a covered party other than the Town does not apply to any act, error or omission:

- (1) That constitutes malfeasance in office;
- (2) That constitutes willful and wanton neglect of duty;
- (3) That constitutes dishonesty on the part of a covered party; or
- (4) That constitutes the willful violation of a statute or ordinance by any official, employee, or agent of the municipality.

The Town is not aware of any claims which the Town is liable for (up to the applicable deductible) which were outstanding and unpaid at June 30, 2011. No provision has been made in the financial statements for the year ended June 30, 2011, for any estimate of potential unpaid claims. Settled claims have not exceeded coverage in any of the past three fiscal years.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note L - COMMITMENTS AND CONTINGENCIES

Administrative Order - The Town is now and has been under an Administrative Order of the Tennessee Department of Environment and Conservation (TDEC), regarding its wastewater treatment system. The Town is subject to certain assessments and penalties contained therein, if certain deadlines are not met and other actions are not taken according to the requirements of that Order. The Order has been pending since January 20, 2005 and is in effect until December 31, 2011.

As of October, 2011, the new wastewater treatment plant was declared "substantially complete" by the Town's engineer and placed on line. TDEC was advised of this condition and was supportive and pleased with the time line. The Town has, and continues to meet, all of the requirements of the Administrative Order. However, since the requirements were not met in prior years, the Town could be called upon to pay certain fines as listed in the Administrative Order should TDEC choose to assess those fines. The Town is currently awaiting a final review and approval process by TDEC, at which point the Town anticipates the removal of the Administrative Order by TDEC, as all requirements of the Administrative Order will have been met.

Construction - The Town has entered into agreements for the construction of a new wastewater treatment plant and other related sewer system upgrades. The commitment for construction is as follows:

	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Remaining Commitment</u>
Wastewater Treatment Plant and Related Sewer System Upgrades	\$ <u>7,482,303</u>	\$ <u>6,719,099</u>	\$ <u>763,204</u>

Pending Lawsuits - The Town is not aware of any litigation or claims that would be material to the Town's combined financial statements.

Note M - LEASES

In a prior year, the Town entered into a 25 year lease agreement with the United States Postal Service for use of a Town constructed building. The agreement contained a \$10 bargain purchase of the property at the end of the 25 year agreement. The lease requires equal monthly payments of \$5,000. The lease agreement meets the requirements of a capital lease.

Future minimum lease payments to be received are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Minimum Future Lease Payments</u>
2012	\$ 21,858	\$ 43,142	\$ 65,000
2013	21,830	38,170	60,000
2014	23,544	36,456	60,000
2015	25,393	34,607	60,000
2016	27,388	32,612	60,000
2017-2021	172,792	127,208	300,000
2022-2026	242,150	47,850	290,000
	\$ <u>534,955</u>	\$ <u>360,045</u>	\$ <u>895,000</u>

Note N - RESIDUAL EQUITY TRANSFER

During a prior year, the Town sold its gas system to another utility. The net equity of \$1,320,308 was transferred to the water and sewer fund. The Board became aware in the current fiscal year that the equity should have been transferred to the general fund as advised by the Tennessee Comptroller's office. As a result, the Board passed a motion on May 24, 2011 to move the equity. However, the actual transfer was not made prior to June 30, 2011, but will be reflected in the subsequent year.

TOWN OF MONTEAGLE, TENNESSEE

Notes to Financial Statements (continued)

June 30, 2011

Note O - SUBSEQUENT EVENTS

On September 28, 2011, the town refinanced the following bonds: Taxable Public Improvement Revenue Bond, Series 2001; Water Revenue and Tax Bond, Series 1974; Water Revenue and Tax Bond, Series 1975; Water Revenue and Tax Bond, Series 1988. The bonds were refinanced into two separate bonds. The first is for \$580,000 at 5.0537744%. The second is for \$370,000 at 2.77882292%.

COMBINING STATEMENTS AND INDIVIDUAL FUND SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenues that are legally restricted to finance specific functions or activities of government and which, therefore, cannot be diverted to other uses.

Drug Fund is used to account for investigation of violations of controlled substance laws and is funded primarily by the state statute from the receipt of fines and costs related to drug enforcement cases.

State Street Aid Fund is used to account for maintenance of all non-State streets in the Town. Revenues are provided from a portion of the State of Tennessee gasoline and motor fuels tax.

ENTERPRISE FUND

Enterprise Funds are used to account for the operation of self-sustaining agencies rendering services to the general public on a user-charge basis. Activities necessary to provide these services are accounted for in such a manner as to show a profit or loss similar to comparable private enterprises.

Water and Sewer Fund is used to account for the operations of the Water and Sewer utility system of the Town of Monteagle. Revenues are derived from charges to the Water and Sewer customer base.

TOWN OF MONTEAGLE, TENNESSEE

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2011

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	
<u>ASSETS</u>			
Cash	\$ 24,484	\$ 28,940	\$ 53,424
Due from other governments		3,050	3,050
Total Assets	<u>\$ 24,484</u>	<u>\$ 31,990</u>	<u>\$ 56,474</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Fund Balance-			
Restricted for:			
Police activities	\$ 24,351		\$ 24,351
Street improvements		\$ 31,825	31,825
Assigned	133	165	298
Total Fund Balances	<u>\$ 24,484</u>	<u>\$ 31,990</u>	<u>\$ 56,474</u>
Total Liabilities and Fund Balances	<u>\$ 24,484</u>	<u>\$ 31,990</u>	<u>\$ 56,474</u>

TOWN OF MONTEAGLE, TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended June 30, 2011

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	
Revenues-			
Intergovernmental		\$ 35,005	\$ 35,005
Other	\$ 133	165	298
Total Revenues	<u>\$ 133</u>	<u>\$ 35,170</u>	<u>\$ 35,303</u>
Expenditures -			
Current expenditures-			
State street aid		\$ 35,174	\$ 35,174
Total Expenditures		<u>\$ 35,174</u>	<u>\$ 35,174</u>
Excess (deficiency) of Revenues over (under) Expenditures	\$ 133	\$ (4)	\$ 129
Fund Balances at beginning of year	<u>24,351</u>	<u>31,994</u>	<u>56,345</u>
Fund Balances at end of year	<u>\$ 24,484</u>	<u>\$ 31,990</u>	<u>\$ 56,474</u>

TOWN OF MONTEAGLE, TENNESSEE

Drug Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues -				
Fines and forfeitures				
Drug fines	\$ 1,500	\$ 1,500		\$ (1,500)
Other				
Interest	150	150	\$ 133	(17)
Total Revenues	\$ 1,650	\$ 1,650	\$ 133	\$ (1,517)
Expenditures -				
Capital outlay				
Public safety	\$ 22,000	\$ 22,000		\$ 22,000
Total Expenditures	\$ 22,000	\$ 22,000		\$ 22,000
Excess (deficiency) of Revenues				
Over (Under) Expenditures	\$ (20,350)	\$ (20,350)	\$ 133	\$ 20,483
Fund Balance at beginning of year			24,351	
Fund Balance at end of year			\$ 24,484	

TOWN OF MONTEAGLE, TENNESSEE

State Street Aid Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues-				
Intergovernmental				
State gas and motor fuel tax	\$ 28,000	\$ 28,000	\$ 35,005	\$ 7,005
Other				
Interest	200	200	165	(35)
Total Revenues	\$ 28,200	\$ 28,200	\$ 35,170	\$ 6,970
Expenditures-				
Current expenditures				
State street aid				
Electricity - street lights	\$ 40,000	\$ 40,000	\$ 35,174	\$ 4,826
Total Expenditures	\$ 40,000	\$ 40,000	\$ 35,174	\$ 4,826
Excess (deficiency) of Revenues over (under) Expenditures	\$ (11,800)	\$ (11,800)	\$ (4)	\$ 11,796
Fund Balance at beginning of year			31,994	
Fund Balance at end of year			\$ 31,990	

TOWN OF MONTEAGLE, TENNESSEE

Water and Sewer Fund

Schedule of Revenues, Expenditures, and Changes in Net Assets -
Budget and Actual

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues -				
Water revenues	\$ 1,050,000	\$ 1,050,000	\$ 1,031,593	\$ (18,407)
Customer service charges	4,200	4,200	3,570	(630)
Late charges-water			5,007	5,007
Late charges-sewer			1,548	1,548
Tap fees	6,000	6,000	18,383	12,383
Sewer revenues	878,000	878,000	859,096	(18,904)
Total operating revenues	\$ 1,938,200	\$ 1,938,200	\$ 1,919,197	\$ (19,003)
Operating Expenses -				
Water transmission and treatment				
Salaries	\$ 68,016	\$ 68,016	\$ 63,686	\$ 4,330
Payroll taxes	5,654	5,654	4,689	965
Education and training	2,000	2,000	100	1,900
Utilities and telephone	35,600	35,600	33,420	2,180
Professional and contractual services	21,100	21,100	5,197	15,903
Repairs and maintenance	12,000	12,000	6,870	5,130
Miscellaneous	1,500	1,500	(78)	1,578
Supplies	9,000	9,000	10,102	(1,102)
Chemicals	33,000	33,000	37,388	(4,388)
Clothing	500	500	471	29
Insurance	18,420	18,420	16,540	1,880
Equipment expenses	1,000	1,000		1,000
Total water transmission and treatment	\$ 207,790	\$ 207,790	\$ 178,385	\$ 29,405
Water maintenance				
Salaries	\$ 79,500	\$ 79,500	\$ 45,393	\$ 34,107
Payroll taxes	6,082	6,082	3,367	2,715
Maintenance	15,000	15,000	2,484	12,516
Clothing	300	300	100	200
Insurance	12,582	12,582	7,059	5,523
Total water maintenance	\$ 113,464	\$ 113,464	\$ 58,403	\$ 55,061

(continued)

TOWN OF MONTEAGLE, TENNESSEE

Water and Sewer Fund

Schedule of Revenues, Expenditures, and Changes in Net Assets -
Budget and Actual (continued)

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Sewer treatment and disposal				
Salaries	\$ 68,016	\$ 68,016	\$ 60,080	\$ 7,936
Payroll taxes	5,503	5,503	4,442	1,061
Education and training	1,000	1,000		1,000
Utilities and telephone	76,900	76,900	52,700	24,200
Professional and contractual services	46,400	46,400	25,185	21,215
Repairs and maintenance	35,000	35,000	37,400	(2,400)
Miscellaneous expense	3,800	3,800		3,800
Supplies	8,500	8,500	12,817	(4,317)
Chemicals	44,000	44,000	53,072	(9,072)
Clothing	200	200	300	(100)
Insurance	13,404	13,404	12,239	1,165
Retirement contribution	1,300	1,300	674	626
Equipment expenses	1,000	1,000		1,000
Total sewer treatment and disposal	\$ 305,023	\$ 305,023	\$ 258,909	\$ 46,114
Sewer maintenance				
Salaries	\$ 30,472	\$ 30,472	\$ 51,319	\$ (20,847)
Payroll taxes	2,482	2,482	3,765	(1,283)
Utilities and telephone	1,050	1,050	1,398	(348)
Repairs and maintenance	16,000	16,000	30,353	(14,353)
Supplies	2,900	2,900	6,813	(3,913)
Gasoline, diesel fuel & oil	18,000	18,000	9,064	8,936
Equipment expenses	1,000	1,000		1,000
Insurance	9,210	9,210	12,548	(3,338)
Retirement contribution	100	100	70	30
Total maintenance - sewer	\$ 81,214	\$ 81,214	\$ 115,330	\$ (34,116)
Administration				
Salaries	\$ 95,000	\$ 95,000	\$ 104,393	\$ (9,393)
Payroll taxes	8,018	8,018	7,754	264
Training and travel	1,800	1,800	4,273	(2,473)
Postage	6,000	6,000	6,687	(687)
Dues and subscriptions	1,500	1,500	4,808	(3,308)
Advertising	650	650	721	(71)
Telephone	2,800	2,800	2,710	90

(continued)

TOWN OF MONTEAGLE, TENNESSEE

Water and Sewer Fund

Schedule of Revenues, Expenditures, and Changes in Net Assets -
Budget and Actual (continued)

Year Ended June 30, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Administration (continued)				
Professional and contractual services	\$ 12,100	\$ 12,100	\$ 38,910	\$ (26,810)
Bank service charges			345	(345)
Repairs and maintenance	800	800	3,369	(2,569)
Miscellaneous	600	600	7,081	(6,481)
Supplies	7,500	7,500	10,762	(3,262)
Purchased water	30,000	30,000	27,616	2,384
Insurance	55,500	55,500	53,894	1,606
Retirement contribution	785	785	223	562
Rent	35,000	35,000	40,300	(5,300)
Equipment expenses	1,000	1,000	2,850	(1,850)
Total administration	\$ 259,053	\$ 259,053	\$ 316,696	\$ (57,643)
Depreciation	\$ 413,661	\$ 413,661	\$ 382,027	\$ 31,634
Total operating expenses	\$ 1,380,205	\$ 1,380,205	\$ 1,309,750	\$ 70,455
Operating income (loss)	\$ 557,995	\$ 557,995	\$ 609,447	\$ 51,452
Non-operating Revenues (Expenses)				
Non-operating revenue	\$ 2,500	\$ 2,500	\$ 7,218	\$ 4,718
Grant revenue			581,775	581,775
Grant revenue ARRA			1,565,729	1,565,729
Interest earnings	20,000	20,000	25,864	5,864
Interest expense	(93,100)	(93,100)	(24,422)	68,678
Bad debt	(6,200)	(6,200)		6,200
Total non-operating revenues (expenses)	\$ (76,800)	\$ (76,800)	\$ 2,156,164	\$ 2,232,964
Changes in net assets	\$ 481,195	\$ 481,195	\$ 2,765,611	\$ 2,284,416
Net Assets at beginning of year			6,759,810	
Net Assets at end of year			\$ 9,525,421	

TOWN OF MONTEAGLE, TENNESSEE

Schedule of Debt Service Requirements by Fiscal Year

June 30, 2011

<u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u>	<u>Issue</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Principal and</u> <u>Interest</u>
<u>General Long-Term Debt -</u>					
2012	Town Hall Capital Outlay Notes Payable	2.700 %	\$ 70,279	\$ 3,988	\$ 74,267
2013	Series 2003		72,210	2,057	74,267
2014			36,777	292	37,069
			<u>\$ 179,266</u>	<u>\$ 6,337</u>	<u>\$ 185,603</u>
2012	Police Vehicle Capital Outlay Notes Payable	1.450 %	\$ 18,723	\$ 838	\$ 19,561
2013			18,999	563	19,562
2014			19,278	283	19,561
			<u>\$ 57,000</u>	<u>\$ 1,684</u>	<u>\$ 58,684</u>
2012	Public Improvement Bond, Series 2001	7.100 %	\$ 20,000	\$ 39,206	\$ 59,206
2013			21,400	37,736	59,136
2014			22,900	36,164	59,064
2015			24,600	34,478	59,078
2016			26,300	32,671	58,971
2017			28,200	30,736	58,936
2018			30,200	28,663	58,863
2019			32,300	26,444	58,744
2020			34,600	24,069	58,669
2021			37,100	21,524	58,624
2022			39,700	18,797	58,497
2023			42,500	15,879	58,379
2024			45,500	12,755	58,255
2025			48,800	9,407	58,207
2026			52,200	5,822	58,022
2027			55,900	1,985	57,885
			<u>\$ 562,200</u>	<u>\$ 376,336</u>	<u>\$ 938,536</u>
Total General Long-Term Debt			<u>\$ 798,466</u>	<u>\$ 384,357</u>	<u>\$ 1,182,823</u>

Water and Sewer Long-Term Debt -

2012	Citizens Tri-County Note Payable	5.680 %	\$ 9,590	\$ 99	\$ 9,689
2012	State Revolving Fund Note Payable SRF 88-001	1.460 %	\$ 56,342	\$ 345	\$ 56,687

(Continued)

TOWN OF MONTEAGLE, TENNESSEE

Schedule of Debt Service Requirements by Fiscal Year (continued)

June 30, 2011

<u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u>	<u>Issue</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Principal and</u> <u>Interest</u>
<u>Water and Sewer Long-Term Debt (continued) -</u>					
2012	Rural Development Revenue Bond	5.000 %	\$ 28,000	\$ 3,496	\$ 31,496
2013	Series 1974		30,000	2,096	32,096
2014			11,925	597	12,522
			<u>\$ 69,925</u>	<u>\$ 6,189</u>	<u>\$ 76,114</u>
2012	Rural Development Revenue Bond	5.000 %	\$ 4,000	\$ 850	\$ 4,850
2013	Series 1975		4,000	650	4,650
2014			4,000	450	4,450
2015			5,000	250	5,250
			<u>\$ 17,000</u>	<u>\$ 2,200</u>	<u>\$ 19,200</u>
2012	Rural Development Revenue Bond	6.125 %	\$ 18,715	\$ 15,245	\$ 33,960
2013	Series 1988		19,894	14,066	33,960
2014			21,147	12,813	33,960
2015			22,479	11,481	33,960
2016			23,895	10,065	33,960
2017			25,401	8,559	33,960
2018			27,001	6,959	33,960
2019			28,702	5,258	33,960
2020			30,510	3,450	33,960
2021			32,432	1,528	33,960
2022			7,211	59	7,270
			<u>\$ 257,387</u>	<u>\$ 89,483</u>	<u>\$ 346,870</u>
Total Water and Sewer Long-Term Debt			<u>\$ 410,244</u>	<u>\$ 98,316</u>	<u>\$ 508,560</u>

TOWN OF MONTEAGLE, TENNESSEE

Schedule of Municipal Utility Rates and Number of Customers

June 30, 2011

As of June 30, 2011, the Town of Monteagle serves approximately 1,209 water customers and 263 sewer customers.

WATERWORKS

	<u>Residential Inside Town</u>	<u>Residential Outside Town</u>
0 - 2,000 gallons (minimum bill)	\$ 16.60	\$ 22.10
2000 - 100,000 gallons	\$ 9.00 per/1,000	\$ 11.00 per/1,000
Over - 100,000 gallons	\$ 10.00 per/1,000	\$ 12.00 per/1,000

SEWER SYSTEM

	<u>Residential Inside Town</u>
0 - 2,000 gallons (minimum bill)	\$ 20.75
2000 - 100,000 gallons	\$ 11.25 per/1,000
Over - 100,000 gallons	\$ 12.50 per/1,000

TOWN OF MONTEAGLE, TENNESSEE

Schedule of Unaccounted for Water

June 30, 2011

(All amounts in gallons)

A Water Treated and Purchased:			
B	Water Pumped	102,231,000	
C	Water Purchased	<u>13,412,580</u>	
D	Total Water Treated and Purchased		115,643,580
	(Sum Lines B and C)		
E Accounted for Water:			
F	Water sold	0	
G	Metered for Consumption (in house usage)	95,979,150	
H	Fire Department(s) Usage	165,450	
I	Flushing	242,100	
J	Tank Cleaning/Filling	13,300	
K	Street Cleaning	0	
L	Bulk Sales	71,000	
M	Water Bill Adjustments	<u>30,000</u>	
N	Total Accounted for Water		<u>96,501,000</u>
	(Sum Lines F Thru M)		
O	Unaccounted for Water		<u>19,142,580</u>
	(Line D minus Line N)		
P	Percent Unaccounted for Water		<u>16.553%</u>
	(Line O divided by Line D times 100)		

Q Other (explain)

See Below

Explain Other:

None

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

SINGLE AUDIT SECTION

TOWN OF MONTEAGLE, TENNESSEE

Schedule of Expenditures of Federal Awards

June 30, 2011

Program Name	CFDA Number	Contract/Grant Number	Balance June 30, 2010 (Receivable)/ Deferred Revenue	Receipts	Expenditures	Balance June 30, 2011 (Receivable)/ Deferred Revenue
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Passed through the Tennessee Department of Economic and Community Development Community Development Block Grant	14.228	GG-06-12413-00	\$ 25,292	\$ 241,471	\$ 347,542	\$ (80,779)
APPALACHIAN REGIONAL COMMISSION						
Passed through the Tennessee Valley Authority Appalachian Area Development	23.002	TN-16330-302-09	\$ (67,897)	\$ 262,467	\$ 246,734	\$ (52,164)
ENVIRONMENTAL PROTECTION AGENCY						
Passed through the Tennessee Department of Environment and Conservation						
State Revolving Loan Fund	66.458	CWA 2009-226		\$ 60,946	\$ 60,946	
State Revolving Loan Fund - ARRA	66.458	CWA 2009-226		378,205	378,205	
State Revolving Loan Fund - ARRA Debt Forgiveness	66.458	CWA 2009-226	\$ (175,708)	1,512,820	1,565,729	\$ (228,617)
			\$ (175,708)	\$ 1,951,971	\$ 2,004,880	\$ (228,617)
DEPARTMENT OF HOMELAND SECURITY						
Federal Emergency Management Agency Assistance to Firefighters Grant	97.044	EMW-2009-FO-09454		\$ 16,720	\$ 16,020	\$ 700
			\$ (218,313)	\$ 2,472,629	\$ 2,615,176	\$ (360,860)

See notes to the schedule of expenditures of federal and state awards.

TOWN OF MONTEAGLE, TENNESSEE

Schedule of Expenditures of State Awards

June 30, 2011

<u>Program Name</u>	<u>Contract/Grant Number</u>	<u>Balance June 30, 2010 (Receivable)/ Deferred Revenue</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2011 (Receivable)/ Deferred Revenue</u>
TENNESSEE DEPARTMENT OF TRANSPORTATION					
High Visibility Law Enforcement Campaigns	K8-11-124		\$ <u>5,000</u>	\$ <u>5,000</u>	
TENNESSEE DEPARTMENT OF TOURISM					
Tourism Grant			\$ <u>1,000</u>	\$ <u>1,000</u>	
			\$ <u>6,000</u>	\$ <u>6,000</u>	

See notes to the schedule of expenditures of federal and state awards.

TOWN OF MONTEAGLE, TENNESSEE

Notes to the Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2011

Note A - BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards include the federal and state grant activity of the Town of Monteagle, Tennessee.

The receivable balance accrued June 30, 2010, represents grant funds earned during the prior period, but not received prior to the end of that period.

Cash receipts represent the actual cash received from the grantor agency during the current period.

Federal and state expenditures represent current period expenses charged to the grant or federal loan draws as well as current period revenues recognized from the grant, recorded on the accrual basis of accounting.

The receivable balance accrued June 30, 2011, represents grant revenue earned which was not received from the grantor agency during the current period.

The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Honorable Mayor and Board of Aldermen
Town of Monteagle, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Monteagle, Tennessee, as of and for the year ended June 30, 2011 which collectively comprise the Town of Monteagle, Tennessee's basic financial statements and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Monteagle, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Monteagle's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Monteagle's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. [2011-1 and 2011-2] A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Monteagle, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Honorable Mayor and Board of Aldermen
Town of Monteagle, Tennessee
Page 2

This report is intended solely for the information and use of management, the Board of Aldermen, others within the entity, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
December 29, 2011



JOBE, HASTINGS & ASSOCIATES

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Board of Aldermen
Town of Monteagle, Tennessee

Compliance

We have audited the Town of Monteagle, Tennessee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Monteagle, Tennessee's major federal programs for the year ended June 30, 2011. The Town of Monteagle, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Monteagle, Tennessee's management. Our responsibility is to express an opinion on the Town of Monteagle, Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Monteagle, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Monteagle, Tennessee's compliance with those requirements.

In our opinion the Town of Monteagle, Tennessee, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Town of Monteagle, Tennessee is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Monteagle, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Monteagle, Tennessee's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Aldermen, others within the entity, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
December 29, 2011

TOWN OF MONTEAGLE, TENNESSEE

Schedule of Findings and Questioned Costs

June 30, 2011

A - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Town of Monteagle, Tennessee.
2. Two significant deficiencies relating to the audit of the financial statements are reported in the *Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards*. None of the deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the Town of Monteagle, Tennessee, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies relating to the audit of the major Federal award program is reported in the *Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133*.
5. The auditor's report on compliance for the major Federal award program for the Town of Monteagle, Tennessee expresses an unqualified opinion on the major Federal programs.
6. No audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 were disclosed during the audit.
7. The programs tested as a major programs were the Economic and Community Development Block Grant CFDA No. 14.228 and the State Revolving Loan Fund CFDA No. 66.458.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Town of Monteagle, Tennessee did not qualify as a low-risk auditee.

B - FINDINGS - FINANCIAL STATEMENT AUDIT

2011-1 Completeness of Revenue

Condition: Controls monitoring General Fund revenues were not effective for all types of revenue sources to ensure completeness of revenue.

Criteria: Management should design internal controls to ensure all revenues owed to the government have been collected and recorded.

Cause of Condition: Management does not have a documented system in place to review General Fund revenue to compare to expectations or to track entities that should be paying taxes, fees or licenses. Some revenue accounts have numerous sources of revenue combined into one account, but no schedule or other documentation to distinguish the makeup of the account.

Effect: Amounts were misclassified. Amounts could be owed but not recorded or collected.

Recommendation: Management should develop a documented method to track each type of General Fund revenue and periodically review for possible unrecorded or misclassified amounts.

TOWN OF MONTEAGLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)

June 30, 2011

2011-1 Completeness of Revenue (continued)

Views of Responsible Officials and Planned Corrective Actions: We have placed all of the Town's businesses and service organizations on an excel spreadsheet which will enable us to efficiently account for issuance and payments of all business permits, hotel/motel tax, beer licenses, and liquor by the drink. We continue to make improvements on our monthly financials by up-dating and adding line items to avoid combining into one (1) account. We can, under the current system of accounting, track each type of General Fund revenue and periodically do review, for possible un-recorded or misclassified amounts.

2011-2 Purchasing Policy

Condition: Compliance with purchasing policies was not consistently documented for purchases over \$2,500.

Criteria: TCA 6-56-302-307 outlines the purchasing policies that municipalities in the State of Tennessee must follow or adopt their own.

Cause of Condition: Bids on purchases over \$2,500 were not documented in all instances in a manner that left a clear audit trail.

Effect: Purchases could have been made without following the bidding process.

Recommendation: Management should document bids received with the supporting documentation for expenditures in excess of \$2,500.

Views of Responsible Officials and Planned Corrective Actions: Management has determined what purchasing policy will be followed, and it is in compliance with that of the State of Tennessee; following the guidelines of the Municipal Purchasing Law of 1983. Except for an emergency expenditure, strict guidelines are being followed concerning competitive bidding; three (3) bidders if at all possible. These invitations to bid are posted in three (3) public places, and all qualified bidders are invited to submit a bid. There are NO purchases being made without following this bidding process. All purchases above a ceiling of \$1,500 are to conform to the above purchasing policy. The Mayor and Board of Alderman must approve any purchases above \$1,500.

C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

TOWN OF MONTEAGLE, TENNESSEE

Summary Schedule of Prior Audit Findings

June 30, 2011

2010-12 ARRA Documentation of TRAM Directives

Condition: The State of Tennessee Office of Tennessee Recovery Act Management (TRAM) established certain directives for all state agencies' subrecipients with regards to ARRA funds. One directive required each recipient to adopt a risk assessment process for all ARRA programs. Another directive required all recipients to complete an action plan with required elements. Monteagle did not document how either directive was achieved with regard to ARRA funds received.

Recommendation: Should this type of grant be awarded in the future, management or its designee should have procedures in place to ensure that all required directives are followed and documented.

Current Status: Southeast Tennessee Development District performed a documented risk assessment and an action plan for the ARRA funds received.